

The Visible Hand ‘Ethical Investment’: Methods & Transformative Potentials

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The current economic model and praxis depletes in the long run social and natural capital. With a globalization process steering off the rails (A. Giddens) and the national and international body polity turning out as incompetent (Patriarch Bartholomaues) or impotent to find consistent answers, there is only left the influence of civil-societal movements in view of a reform of the current disastrous monetary-economic regime.

"Money must serve, not rule!" (Francis, *EG* 58). For this, the human family has to "seek other ways of understanding the economy and progress" (Francis, *LS* 16). No use or investment of money is ethically neutral. "Purchasing is always a moral – and not simply economic – act". (*LS* 206, *CiV* 66). One way of reshaping the current financial and economic system is ethical investments with its three main approaches or methods: "negative exclusion criteria" (non-demand), "best-in-class-method" (demand), and "engagement-method". "Wealth not only creates the economic basis for institutions and people, but also exerts an influence on the structures of a society. Because you can do something with it, there is an obligation to use this ability responsibly. The world of financial investment largely obeys the rules governing the interaction between supply and demand. By investing, you create demand. By excluding certain markets and suppliers, you remove demand from those segments. This can bring about changes in the system." (Financial investments as cooperation, Ethical investment guidelines of the Austrian Bishops' Conference and the religious orders of Austria, *Amtsblatt der Österreichischen Bischofskonferenz* Nr. 74 | 1. Jänner 2018, no. 1).

The monetary system with its inherent power and possibilities of transactions must be guided by the compliance with clear moral and ethical principles, not primarily by profit and a maximisation of returns for investors and shareholders (see *Oeconomicae et Pecuniariae*, or the *ESG Framework*), as this will harm in the long run all actors. Ethically oriented consumers and investors have the potential to pave the way for a “cultural revolution” (Francis) and necessary transformation of monetary and economic structures in view of a model and praxis that serves people and the planet instead of destroying them.

The lecture will introduce the basic idea and potentials of ethical investment as a tool for a transformation of the current financial and economic model. The *Steyley Fair Invest* bond will serve as a practical illustration.

The first step in ethical investment is compliance with exclusion criteria, which are intended to prevent any investment in support of unacceptable or ambiguous social and environmental results. In principle, exclusion criteria must be applied consistently in all cases (exclusions of atomic energy; drugs; child labor, pornography). In less clear-cut cases, such exclusion criteria are set relatively and apply then only under expressly specified conditions (automobile industry; fossil fuels).

The second method is called “best-in-class-approach”. Within this method, investments not affected by an exclusion criterion are evaluated using positive and negative scores, which results in a ranking of companies or investments. In critical sectors, only the “most sustainable” investment, company, or country should be chosen to be eligible for investment. In that way and method, a “role model effect” is created, which helps to raise the overall standards in the particular economic field and sector (positive incentives). But, this method requires multiple specialists and

research in view a consistent evaluation in order to produce evidence and meet the set standards and criteria.

The third method is called “engagement”, which refers to a general and overall improvement in communication and deepening awareness among all actors, e.g. regarding the particular criteria under which ethically oriented consumers and investors are likely to invest. For instance, shareholders can use and pool their speaking and voting rights (voting strategy) at annual general meetings, which will exert a certain influence over the management in order to avoid damage. Also, the voice strategy can be chosen as a method and form of engaging in direct and constructive dialogue with an actor about specific ethical issues and in view of improvements. This dialogue can be conducted either critically but also positively encouraging in view of improvements. For a hitherto excluded company, this method can lead to an entrance strategy, if the performance of the company improves and reaches the point to meet the condition to overcome the exclusion. But this method can also lead negatively to an “exit strategy” (divestment).